MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 2, **2015/2016 SESSION**

BAC1614 – FUNDAMENTALS OF FINANCIAL ACCOUNTING

(All Section / Groups)

12 MARCH 2016
2:30 PM – 5:30 PM
(3 Hours)

INSTRUCTION TO STUDENT

1. This question paper consists of 10 pages excluding cover page with 4 Questions only.
2. Attempt ALL questions. The distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided

QUESTION 1

Part A

The trial balance of ABC Sdn Bhd shown below does not balance.

ABC SDN BHD
Trial Balance
30 June, 2015

	Debit	Credit
Cash	RM 3,600	
Accounts Receivable	7,600	
Supplies	600	
Equipment	8,300	
Accounts Payable		RM 9,766
Common Stock		1,941
Dividends	1,500	
Service Revenue		16,200
Wages Expense	3,800	
Repair Expense	1,600	
Totals	RM27,000	RM27,907

An examination of the ledger and journal reveals the following errors:

1. Each of the above listed accounts has a normal balance per the general ledger.
2. Cash of RM350 received from a customer on account was debited to Cash for RM530 and credited to Accounts Receivable for RM530.
3. A dividend paid to stockholders of RM300 was posted as a credit to Drawing for RM300 and credit to Cash for RM300.
4. A debit of RM300 was not posted to Wages Expense.
5. The purchase of equipment on account for RM700 was recorded as a debit to Repair Expense and a credit to Accounts Payable for RM700.
6. Services were performed on account for a customer for RM510, for which Accounts Receivable was debited for RM510 and Service Revenue was credited for RM51.
7. A payment on account for RM215 was credited to Cash for RM215 and credited to Accounts Payable for RM251.

Instructions:

(i) Prepare a correct trial balance for ABC Sdn Bhd.

(2.5 marks)

(ii) Prepare an income statement for June 2015.

(2 marks)

Continued...

(iii) Prepare a statement of financial position at 30 June 2015.

(2 marks)

Part B

The following are transactions of DEF Sdn Bhd for September 2015.

(a) On 1 September, paid rent on the track facility for three months for RM180,000.

(b) On 1 September, sold season tickets for admission to the racetrack. The racing season is year-round with 25 racing days each month. Season ticket sales totaled RM900,000.

(c) On 1 September, borrowed RM200,000 from XYZ National Bank by issuing a 9% note payable due in three months.

(d) On 5 September, schedules for 20 racing days in September, 25 racing days in October, and 15 racing days in November were printed for RM3,000.

(e) The accountant for the concessions company reported that gross receipts for September were RM140,000. Ten percent is due to DEF and will be remitted by 10 October.

Instructions:

(i) Prepare the journal entry (if one is required) to record the initial transaction and then prepare the adjusting entry, if any, required on 30 September, the end of the fiscal year.

(9 marks)

(ii) Explain the accrual basis of accounting and identify the major types of adjusting entries.

(1 mark)

(iii) Explain why adjusting entries are needed.

(1 mark)

Part C

On 31 December, 2014, the adjusted trial balance of the BCD Personnel Agency Sdn Bhd shows the following selected data:

Commission Receivable, RM8,000
Commission Revenue, RM80,000
Interest Expense, RM10,500
Interest Payable, RM2,500
Utilities Expense, RM4,800
Accounts Payable, RM2,400

Continued...

Analysis indicates that adjusting entries were made for (a) RM8,000 of employment commission revenue earned but not billed, (b) RM2,500 of accrued but unpaid interest, and (c) RM2,400 of utilities expense accrued but not paid.

Instructions:

(i) Prepare the closing entries at 31 December, 2014.

(2 marks)

(ii) Prepare the reversing entries on 1 January, 2015.

(1.5 marks)

(iii) Prepare the entries to record (1) the collection of the accrued commission on 8 January, (2) payment of the utility bill on 10 January, and (3) payment of all the interest due of RM3,100 on 15 January.

(3 marks)

(iv) What is the interest expense for the month of January 2015?

(1 mark)

(Total: 25 marks)

QUESTION 2

Part A

The followings are the transactions for Betik Sdn Bhd for the month of October 2015. Betik uses a perpetual inventory system.

5 Oct.	Paid cash of RM9,000 for operating expenses that were incurred and properly recorded in the previous period.
8 Oct.	Purchased merchandise for RM25,000 on account. Credit terms: 2/10, n/30; Freight term: FOB Shipping Point.
10 Oct.	Paid freight bill of RM470 for merchandise purchased on 8 October.
12 Oct.	Borrowed RM10,000 from Anggur Bank Berhad signing an 8%, 3-month note.
15 Oct.	Paid for merchandise purchased on 8 October. The company takes all discounts to which it is entitled.

Continued...

20 Oct. Sold merchandise for RM15,000 to Mr Ali on account. The cost of the merchandise sold was RM9,000. Credit terms: 2/10, n/30.

22 Oct. Purchased a 2-year insurance policy for RM2,400 cash.

25 Oct. Issued Credit Memo No. 151 to Mr Ali for RM1,000 for merchandise returned by him from the sale on 20 October. The cost of the merchandise returned was RM600.

29 Oct. Purchased office equipment for RM15,000 paying RM4,000 in cash and signing a 3-month, 9% note for the remainder.

Instructions:

(i) Prepare the necessary general journal entries for the month of October 2015 for Betik Sdn Bhd for each situation given above.

(12 marks)

(ii) A merchandiser frequently has a need to use contra accounts related to the sale of goods. Identify the contra accounts that have normal debit balances and explain why they are not considered expenses.

(2 marks)

Part B

Kayu Sdn Bhd was undergoing an end of year audit of its financial records. The auditors were in the process of reviewing Kayu's inventory for year end, 31 December, 2014. They completed an end of year inventory. The value of the ending inventory prior to any adjustments was RM 302,000, but before finishing up they had a few questions. Discussion with Kayu's accountant revealed the following:

(a) Kayu sold goods costing RM 60,000 to Batu Enterprise. FOB shipping point on 28 December. The goods are not expected to reach Batu until 12 January 2015. The goods were not included in the physical inventory because they were not in the warehouse.

(b) The physical count of the inventory did not include goods costing RM95,000 that were shipped to Kayu FOB destination on 27 December and were still in transit at year-end.

(c) Kayu received goods costing RM 25,000 on 2 January 2015. The goods were shipped FOB shipping point on 26 December by Sejati Enterprise. The goods were not included in the physical count.

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(d) Kayu sold goods costing RM 40,000 to Sampan Sdn Bhd FOB destination on 30 December 2014. The goods were received by Sampan Sdn Bhd on 8 January 2015. Because the goods had been shipped, they were excluded from the physical inventory count.

(e) Kayu received goods costing RM 42,000 on 2 January 2015 that were shipped FOB destination on 29 December 2014. The shipment was a rush order that was suppose to arrive 31 December 2014. This purchase was included in the ending inventory of RM 302,000.

(f) Kayu, as the consignee, had goods on consignment that cost RM 3,000. Because these goods were on hand as of 31 December 2014, they were included in the physical inventory count.

Instructions:

Analyze the above information and calculate a corrected amount for the ending inventory. Explain the basis for your treatment of each item.

(11 marks)

(Total: 25 marks)

QUESTION 3

Part A

1. Sandy is the receptionist and office manager for The Day Spa. The Day Spa is a small company and Sandy handles all of the office duties including billing, cash receipts, depositing cheques and preparing the monthly bank reconciliation. She also prepares all of the cheques for disbursements and is an authorized signer on the cheque. She has been a trusted employee of The Day Spa for many years, but still makes just a small amount above minimum wage. Since she is a trusted employee, the owner concentrates on the spa business and leaves all of the office work to Sandy with no supervision. She has recently become a grandmother and enjoys buying her granddaughter expensive toys and clothes. She has just bought a new high spec Toyota for herself and an exclusive condo in the City.

Instructions:

(i) Briefly explain which element(s) of the fraud triangle are present in this case.

(3 marks)

(ii) Using the basic internal control principles, what can be done to strengthen the internal control procedures for The Day Spa?

(3 marks)

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2. The Cash account in the ledger of Pine Golf Club shows a balance of RM11,925 at 31 December 2014. The 31 December bank statement shows a balance of RM10,440. The only reconciling items consist of Bank service charges of RM32, Deposit in transit of RM1,813, NSF cheque from customer LD Golf Shoe in the amount of RM126, Error in recording cheque no. 970 for utilities: cheque was written in the amount of RM834 but was recorded in Pine's accounting records as RM384.

Instructions:

(i) Compute the amount of the adjusted cash balance at 31 December 2014.
(2 marks)

(ii) Determine the total amount of outstanding cheques at 31 December 2014.
(1.5 marks)

(iii) Prepare the necessary journal entry, if any, to adjust Pine Golf Club accounting records at 31 December 2014.
(2 marks)

Part B

1. JKS Corporation acquired equipment on January 1, 20X6, for RM320,000. The equipment had an estimated useful life of 10 years and an estimated salvage value of RM25,000. On 1 January, 20X9, JKS Corporation revised the total useful life of the equipment to 8 years and the estimated salvage value to be RM20,000.

Instructions:

(i) Compute depreciation expense for the year ending December 31, 20X9, if JKS Corporation uses straight-line depreciation.
(2 marks)

(ii) Determine the book value as of 31 December, 20x9 if JKS Corporation revised the total useful life of the equipment to 6 years instead of 8 years on 1 January, 20x9 and the estimated salvage value to be RM20,000.
(2.5 marks)

(iii) Explain the impact, if any, on depreciation when estimates that determine depreciation had changed.
(2 marks)

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2. The following series of transactions occurred during Year 1 and Year 2, respectively when Woods Co. sold merchandise to JM Enterprise. Woods Co. annual accounting period ends on 31 December. (Using 365 days to a year and round-up answer to nearest dollars).

Date	Particulars
1 Oct Yr1	Sold RM12,000 of merchandise to JM Enterprise, terms 2/10, n/30.
15 Nov Yr1	JM Enterprise reports that he cannot pay the account until early next year. He agrees to exchange the account for a 120-day 12% note receivable.
15 Mar Yr2	Woods Co. receives a cheque from JM Enterprise for the maturity value (with interest) of the note.
19 Mar Yr2	Woods Co. checked with the Bank and discovered that JM Enterprise cheque is being returned for nonsufficient funds (NSF).
31 Dec Yr2	Woods Co. writes off JM Enterprise's account as uncollectible.

Instructions:

(i) Prepare the adjusting journal entry to record accrued interest on the note at 31 Dec Year1.

(1 marks)

(ii) Prepare Woods Co.'s journal entries to record the above transactions. The company uses the allowance method to account for its bad debt expense.

(6 marks)

(Total: 25 marks)

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QUESTION 4

Part A

The following summaries from the Income Statements and Statements of Financial Position of Nike, Inc. and Adidas, Inc. are presented below.

	Consolidated Statement of Financial Position			
	Nike. Inc (in millions)		Adidas Inc	
	31 May		31 May	
Assets	2014	2013	2014	2013
Property, Plant and equipment, net	1,620.8	1,614.5	5.7	7.0
Other long term assets	413.2	670.8	1.1	1.5
Total non-current assets	2,034	2,285.3	6.8	8.5
Current assets				
Account receivables, net	2,101.1	1,804.1	15.5	14.7
Inventories	1,514.9	1,373.8	27.2	28.4
Other current assets	429.9	401.3	3.5	4.2
Cash & cash equivalent	634.0	575.5	34.5	22.2
Total current assets	4,679.9	4,154.7	80.7	69.5
Total assets	6,713.9	6,440.0	87.5	78.0
Equity and Liabilities				
Equity				
Share Capital-Ordinary	2.8	2.8	2.3	2.3
Share Premium	348.7	341.2	16.8	15.6
Treasury shares	0	0	(6.3)	(5.4)
Retained Earnings	3,639.2	3,495.0	55.9	50.7
Total Equity	3,990.7	3,839.0	68.7	63.2
Liabilities				
Long-term liabilities	708.0	767.8	2.5	2.6
Current liabilities				
Accounts Payable	572.7	504.4	8.5	6.6
Notes Payable	75.4	425.2	0	0
Accrued liabilities	1,054.2	765.3	7.8	5.6
Current portion of long-term debt	205.7	55.3	0	0
Income taxes payable	107.2	83.0	0	0
Total current liabilities	2,015.2	1,833.2	16.3	12.2
Total Equity & Liabilities	6,713.9	6,440.0	87.5	78.0

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Consolidated Statement of Income

	Nike Inc	Adidas Inc
	31 May, 2014 (in millions)	31 May, 2014 (in millions)
Revenues	10,697.0	133.5
Cost of sales	6,313.6	87.3
Gross profit	4,383.4	46.2
Operating expenses	3,137.6	37.3
Operating income	1,245.8	8.9
Interest expense	42.9	(0.1)
Other revenue and expenses	79.9	0.3
Income before tax	1,123.0	9.1
Income taxes	382.9	3.9
Income before effect of accounting change	740.1	5.2
Cumulative effect of accounting change, net of tax	266.1	0
Net income	474.0	5.2

Instructions:

(i) Compute the following ratios for both companies for 2014. Use 365 days in a year. Briefly explain which company do you consider to be the better short-term credit risk?

(a) Current ratio
(b) Acid-test ratio
(c) Accounts receivable turnover
(d) Inventory turnover
(e) Days' sales in inventory
(f) Days' sales uncollected

(9 marks)

(ii) Compute the following ratios for both companies for 2014. Briefly explain which company you consider to have better profitability ratios.

(g) Profit margin ratio
(h) Return on total assets
(i) Return on ordinary shareholders' equity

(5 marks)

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Part B

A company previously issued 10%, 5-years bonds with a par value of RM2,000,000 receiving a RM120,000 premium on 1 January, Year 1. The bonds were sold to yield the buyers an 8% annual return. Interest is to be paid semi-annually each 30 June and 31 December. On the current year's interest date, after the bond interest was paid and after 40% of the total premium had been amortized, the company purchased the entire bond issue on the open market at 98 and retired it.

Instructions:

(i) Prepare the journal entry to record the issuance of the bonds on Year 1.

(2 marks)

(ii) Assume the Company uses the effective interest method of amortization of any discount or premium on bonds, show how the bonds would be reported on the Company's Statement of Financial Position at 1 January, Year 2. Show all workings.

(5 marks)

(iii) Prepare the journal entry to record the retirement of these bonds. Show all workings

(4 marks)

(Total: 25 marks)

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